GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-248704

November 29, 1993

The Honorable Lamar Smith
House of Representatives

Dear Mr. Smith:

In response to your request, we reviewed the Department of Defense's (DOD) efforts to recover from responsible government contractors money it paid to military and civilian personnel for lost or damaged personal property moved under DOD's Direct Procurement Method (DPM) of shipment. We evaluated whether DOD was attempting to recover as much of the claims money paid to service members as possible and whether it was filing the claims against the contractor or freight carrier that actually caused the loss or damage.

Background

When DOD ships household goods and baggage for its military and civilian personnel, it has two methods of shipment it can choose. Most often, it uses the Through Government Bill of Lading (TGBL) method in which a single forwarder or moving van company arranges for or provides all the services for the entire move. The forwarder or moving van company is responsible for packing, crating, local drayage, line-haul transportation, delivery, uncrating, unpacking, and any other service required and accepts responsibility for any loss or damage during the entire move.

The other method is direct procurement. In thousands of cases each year, both internationally and domestically, DOD uses DPM as an alternative to TGBL. Under DPM, DOD contracts with a series of local packing and containerization contractors and line-haul freight carriers to handle each segment of a move. One contractor prepares the goods and packs them for shipment. Another delivers the goods and unpacks them. One or more freight carriers provide the line-haul transportation between contractors. DPM may be used for a variety of reasons. Sometimes TGBL service is not offered at certain installations, or the TGBL companies may have more business than they can handle. Sometimes DOD may not need the complete service TGBL companies offer. In still other cases, DOD may decide DPM is less costly.

DOD manages the DPM shipments throughout. That is, DPM shipments move from government to contractor, government to carrier, and not from contractor to contractor, or carrier to carrier. There are no business or

contractual relationships between the origin and destination contractors or between the contractors and freight carriers. The extent of each contractor's liability is defined in individual contracts with the government. Under some contracts, DOD can recover full value when negligence is proven.

If a DPM shipment or a portion of it is lost or damaged, the property owner can file a claim against the government and be compensated according to the law and service regulations. Claims officials then try to recover the payment from one of the contractors or freight carriers that may have been responsible for the problem. DOD has no overall data showing the number of DPM claims handled and dollar amounts that its claims officials have paid. However, available data suggest that there are thousands of DPM claims paid each year, and less than half the amounts paid are eventually collected.

Results in Brief

DOD claims officials may, under some circumstances, recover for loss and damage claims from either origin or destination DPM contractors or from freight carriers handling the DPM shipments. However, they have nearly always attempted recovery only from destination DPM contractors. Often someone other than the destination contractor, particularly the origin contractor or one of the freight carriers, may be more responsible for the loss and damage and may have greater liability limits than the destination contractor.

Although claims officials were following service claims regulations and instructions and were making an effort to correctly construe the liability clause contained in DPM destination contracts, they have (1) recovered less than they could have and (2) indirectly forced the destination contractors to increase rates to offset the claims costs. In addition, origin transportation officers have received only minimal feedback that could have been used to reduce the loss and damage and improve the quality of service on future DPM shipments.

The claims officials generally did not attempt recovery from other than the destination contractors for several reasons. First, the officials settling the claims had access only to the destination DPM contractor's contract, which specified that the destination contractor would be presumed to be liable for any loss and damage, absent evidence or documentation showing that another contractor or carrier was liable. Without the information contained in the other contracts, claims officials did not know the extent

of the other parties' liability. Second, the destination contractors could seldom provide the claims offices acceptable evidence or documentation that placed the liability for the loss and damage on one of the other parties handling the DPM shipment. Third, the claims regulations did not fully explain the options available to the claims officials to recover from someone other than the destination contractor, did not accurately explain what the liability was for each contractor and freight carrier handling the shipments, and did not show how to make a case for recovery from someone other than the destination contractor. Claims officials had little guidance beyond what was stipulated in the destination contractor's contract. Finally, the transportation documentation that could have been relied on by the claims officials to determine the cost-effectiveness of pursuing claims against freight carriers had often been prepared inaccurately by the transportation officials. Consequently, the information that was available was misleading.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD agreed with some of our recommendations on how to improve claims guidance. However, DOD said that we had failed to identify the legal basis for recovery against destination contractors. For clarification purposes, we have added a section in appendix I of our final report to explain the law more fully.

In response to our observation that destination contractors had been forced to increase their rates to cover claims costs, DOD said that by failing to document shipments to absolve themselves of liability, destination contractors have voluntarily accepted claims as a cost of doing business. In this connection, several times in its written comments on our report, DOD stated that for the vast majority of DPM shipments, it is virtually impossible to tell precisely where and how damage occurred. Therefore, documentation by the destination contractor would offer only minimal relief and would do little to absolve the destination contractor.

DOD took exception to a recommendation in our draft report that DOD should consider dividing claims liability between the origin and destination contractors in those cases where the responsible party could not be established. It said that assessing claims cost on a shared basis would not encourage contractors to improve their service, nor would it be cost-effective.

Our primary reason for recommending shared liability was to ensure feedback to origin transportation officials on the quality of service being

of the other parties' liability. Second, the destination contractors could seldom provide the claims offices acceptable evidence or documentation that placed the liability for the loss and damage on one of the other parties handling the DPM shipment. Third, the claims regulations did not fully explain the options available to the claims officials to recover from someone other than the destination contractor, did not accurately explain what the liability was for each contractor and freight carrier handling the shipments, and did not show how to make a case for recovery from someone other than the destination contractor. Claims officials had little guidance beyond what was stipulated in the destination contractor's contract. Finally, the transportation documentation that could have been relied on by the claims officials to determine the cost-effectiveness of pursuing claims against freight carriers had often been prepared inaccurately by the transportation officials. Consequently, the information that was available was misleading.

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Our primary reason for recommending shared liability was to ensure feedback to origin transportation officials on the quality of service being

packing and containerization, a major factor in loss and damage to military shipments.

Additional information on our review of DPM claims and further analysis of DOD's comments are discussed in appendix I. The full text of DOD's comments are reproduced in appendix II. Our scope and methodology are discussed in appendix III.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 5 days from the date of this letter. At that time, we will send copies to the Chairmen, Senate and House Committees on Armed Services and on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Operations; the Secretaries of Defense, the Army, the Navy, and the Air Force; and the Commander, Military Traffic Management Command. We will also make copies available to other interested parties upon request.

Please contact me on (202) 512-5140 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix IV.

Sincerely yours,

Mark E. Gebicke

Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

The Department of Defense Can Improve Claims Recoveries on Direct Procurement Method Shipments

By holding the destination contractor liable, the Department of Defense (DOD) recovered less money than it could have in certain instances, caused the destination contractors to increase their rates, and received only minimal feedback on why loss or damage occurred. Its claims officials seldom attempted recovery from other than the destination contractors because they did not have sufficient evidence or information on other contractors' and carriers' liability. Moreover, the manner in which the destination DPM contract established a presumption of liability on the part of the destination contractor made it difficult for the destination contractors to place the burden of responsibility on anyone else when a shipment was received in apparently good order. Then too, the service claims guidance did not fully explain the options available to the claims officials to recover from someone other than the destination contractor. Also, the claims officials often had inadequate transportation documentation that they could rely on to determine the cost-effectiveness of pursuing claims against one or more of the freight carriers.

Holding Destination Contractor Liable Restricts Recovery Effort

Claims officials processing Direct Procurement Method (DPM) claims have held the destination contractor responsible for nearly all claims. Only if the destination contractor had clear evidence that showed conclusively that the damage was caused by another contractor did claims officials file the claim against another contractor.

Basis for Contractor Liability

The standard clause involving DPM contractor liability for loss or damages provides that (if the contractor is timely notified) the contractor at destination is presumed liable for loss or damage in the absence of evidence or supporting documentation that places liability on a carrier or another contractor. This clause generally reflects the common law: when goods pass through the custody of successive custodians in apparently good order, it is presumed that any loss or damage occurred in the hands of the last one. This presumption exists independently of any contractual relationship that the delivering contractor may (or may not) have with the prior holder of the goods.

The contractor does not overcome this presumption merely by alleging or suggesting a cause of loss or damage. For example, delivering contractors often allege that damage was due to faulty packaging on the part of the origin contractor. But, even if the delivering contractor can identify a specific contractual deficiency by the origin contractor, it still must demonstrate that the deficiency caused the damage. As another example,

some destination contractors believe that if they merely identify external damage to a container, they cannot be held liable for any damage to the contents. However, they must demonstrate that the incident that caused damage to the container also caused the damage claimed on the item inside. The evidence necessary to overcome the presumption that loss or damage occurred in the hands of the last custodian must be determined from the particular circumstances.

Claims Process

In a typical claims case, service members or civilian employees file a claim with the claims office showing that they received their property from the destination DPM contractor damaged or had items missing. For example, furniture could be broken or scratched, there could be water damage, the shipment could be mildewed, or there could be missing pieces.

The claimant must show the dollar value of the loss and that he or she notified the contractor in a timely manner. The claims official then reviews the claim, decides how much to pay, and pays it, as appropriate.

At that point, the claims office or the service central claims processing center tries to recover the settlement amount from the responsible party. By this time, the claims official has (1) a copy of the property inventory as it was packed at origin, (2) one or more DOD forms describing the problem, (3) evidence documenting the monetary value of the property damaged or lost, (4) working papers showing how the amount paid to the claimant was determined, and (5) a copy of the destination contract giving the terms of the contractor's liability for loss and damage. Sometimes the files contain a copy of the bill of lading and/or the freight carrier's delivery receipt for the portion of the move handled by the last line-haul freight carrier.

The claims office decides against whom to file the claim. A DPM contract covering delivery stipulates that the destination contractor would be presumed liable for any loss or damage unless it could provide the claims officials with evidence or documentation placing the responsibility with someone else.

Guidance provided by DOD's legal advisers indicates that the destination contractor cannot shift liability to another contractor simply by saying that the damage did not occur while the property was in its possession. To avoid liability, the destination contractor has to prove that the damage was a direct result of actions by either the origin contractor or one of the freight carriers. When the claims officials filed the claims against the

destination contractors, the contractors typically denied that they were liable. Often, they returned a copy of a delivery receipt for the shipment they received from the last freight carrier indicating that they had taken exceptions at delivery. These exceptions included such statements as (1) the shipments had not been packed to specifications, (2) the boxes had not been banded properly or caulking needed to waterproof the containers was inadequate, or (3) one or more of the boxes had holes in them.

Usually, the local claims officials rejected the contractor's arguments. They indicated that they were looking for evidence showing that the loss or damage did not occur while the goods were in the contractor's possession, that the loss or damage did in fact occur elsewhere, and that what had occurred elsewhere was the sole cause of the problem. For example, they said that to overcome its presumption of liability when improper packing was alleged as the cause of the problem, the destination contractor had to establish both that the packing was improper and the improper packing was the sole cause of the problem. To overcome its presumption of liability when some previous deficiency (such as mildew or waterlogging) allegedly caused the problem, the destination contractor had to establish that it knew about this deficiency and had told someone else about it at the time it received the shipment. If the contractor alleged that the freight carrier had damaged the shipment, it had to present evidence showing not only that it had noted this problem and alerted the freight carrier, but also that this was the sole cause of the loss or damage. If all these conditions were not met, the claims office could conclude that the destination contractor had caused the problem and was liable. Consequently, the destination contractor either had to pay the claim or DOD withheld the money from other invoices awaiting payment.

DOD Recovered Less Money Than It Could Have by Charging Destination Contractors

What the claims offices recovered from destination contractors was often minimal compared to what they could have recovered. The origin contractors or freight carriers may have been responsible for the loss and damage and may have had higher amounts of liability than the destination contractors. According to their contracts, the destination contractors were liable for loss and damage at a rate not to exceed $0.60 per pound, per article. The origin contractors were also liable at a rate of $0.60 per pound, per article, but if negligence was established, they could be held liable for the full amount of the loss. Freight carriers had liability rates ranging from not to exceed $0.10 per pound, per article, to not to exceed $2.50 per pound, based on the gross weight of the shipment. Most often, however, they were liable at the $2.50 rate. The differences in liability have the

potential for major differences in the amounts that could be recovered. For example, in a particular claim we reviewed at a Texas air base, the claims officials paid the member $1,452 as compensation for lost and damaged household goods. The claims officials first looked at the destination contractor for a $399-recovery at the contractual rate of $0.60 per pound, per article. The destination contractor argued that it was not responsible for the loss. In this rare instance, the claims officials accepted the argument and filed a claim against the last freight carrier for $66, at the claims regulation-stipulated rate of $0.10 per pound, per article. Had the claims officials known that the carrier's actual liability was $2.50 per pound and had they made a valid case against this carrier, they could have recovered $1,062. If, however, they had determined from the evidence that the origin DPM contractor was negligent in packing the goods, they could have recovered the full value of the loss, or $1,452. Examples of similar differences in the amounts that could have been recovered, depending on who was responsible, were commonplace.

Increased Rates Charged by Contractors

Because DOD generally held only the destination contractors liable for DPM claims, the contractors, in many instances, have had to increase their rates to offset the claims costs. Several DPM contractors we spoke with said that they had concluded that it was not worth arguing any claim because the claims offices almost never accepted evidence suggesting that they were not liable. They concluded that there was no choice but to accept claims as a cost of doing business and to increase their rates on future contracts. An August 13, 1991, letter by the Chief of Claims and Tort Litigation staff, Office of the Air Force Judge Advocate General, to the claims offices and DPM contractors in effect confirmed that this is what DOD expected the contractors to do when they could not absolve themselves from liability.

There were no DOD figures showing how much more DOD may have been paying for destination service as a result of destination contractors being routinely held liable for almost all loss and damage claims. We could not determine how much a contractor may have included in its bid to DOD for liability as that was not a matter of public record.

Minimal Feedback on Causes of Loss or Damage Inhibits Preventive Actions

When the claims offices held the destination contractors liable for loss or damage, there was little likelihood that the underlying reasons why losses or damage occurred on DPM shipments would be identified and that preventive actions would be taken. In fact, only minimal feedback was received. Throughout the course of our work, contractors and claims

offices commented that many, if not most, of DOD's DPM claims resulted from shoddy packing and rough handling. However, only in very few cases were the contractors and carriers that probably caused the damage ever notified and held responsible for the problems. Unless contracting officials received feedback on the quality of services being provided, there was little likelihood that any problem would be corrected the next time a move was made.

Reasons for Not Charging Responsible Contractors

Claims officials did not attempt recovery from other than the destination contractors for several reasons. First, the officials had access only to the destination DPM contractors' contract, which specified that the destination contractor would be presumed to be liable for any loss and damage. Second, the destination contractors could seldom provide the claims offices acceptable evidence or documentation that placed the responsibility for the loss and damage on one of the other parties handling the DPM shipment. Third, the claims guidance (1) did not fully explain the options available to the claims officials to recover from someone other than the destination contractor, (2) did not accurately explain what the liability was for each contractor and freight carrier handling the shipments, and (3) did not show how to recover from someone other than the destination contractor. Fourth, the transportation documentation that the claims officials could have relied on to determine the cost-effectiveness of pursuing claims against freight carriers had often been prepared inaccurately by the transportation officials.

Claims Officials Did Not Have Information Pertaining to Other Contracts

Claims officials had access only to the destination DPM contractor s contract. Consequently, they did not know the extent of other parties' liability.

At each point in a DPM move, a transportation official has to

- let a contract, or ensure a contract is in place for use;
- prepare the procurement documentation for that portion of the move;
- ensure that the service was provided as called for in the contract or tender of service;
- take whatever action was necessary if the service was not provided as called for; and
- maintain an audit trail of what was done or had transpired, particularly as to the condition of the property when it was turned over from one party to the next.

Usually, none of this information was transmitted to the claims offices for purposes of claims recovery. Moreover, there was little evidence that the claims officials had ever asked for the information, particularly copies of the individual contracts for each participant in the move. Without copies of the origin contractor's contract and supporting documentation and copies of the freight carriers' contracts or tenders showing liability, claims officials had nothing more than the destination contractor's contract to refer to for recovery.

Destination Contractors Could Seldom Provide Evidence Placing Liability With Anyone Else

In 1991, the chief of the Claims and Tort Litigation staff of the Air Force Judge Advocate General Office prepared a letter as guidance for the DOD claims offices and contractors concerning the evidence needed to overcome the presumption that the destination DPM contractor is liable for loss and damage.

As a rule, the destination DPM contractor is presumed to be liable for all loss and damage to the shipment unless that contractor provides clear and convincing evidence showing that some other contractor caused the loss or damage.

The key point was that the destination contractor could not overcome the presumption of its liability merely by alleging or suggesting a cause of the loss or damage. Often, it presented, or said it had already presented to the local transportation office, a delivery receipt indicating that when it received the shipment from the trucking company, the shipment had not been packed to contractual specifications, such as use of the proper type of carton, appropriate container banding, and adequate caulking around the container edges sufficient to prevent water damage. However, even if the delivering contractor could identify a specific contractual deficiency by the origin contractor, it still had to demonstrate to the claims officials that the packing deficiency caused the damage. If the destination contractor argued that the freight carrier delivered the cartons or boxes with holes in them or with corners smashed and the contractor should therefore be relieved from liability, the claims officials said that the contractor also had to demonstrate that whatever caused the holes or smashed the corners, also caused the damage claimed on the goods inside. This was seldom possible and the claims officials, therefore, dismissed the contractor's arguments for relief from liability.

The liability clause in the destination contract was written differently in the past. For instance, from 1977 to 1980, liability was often shared equally

by the origin and destination contractors. Prior to 1977, there was no statement of presumption of responsibility in the contracts. We could not establish why the shared liability was abandoned.

In our discussions with contractors, many of whom are both destination and origin DPM contractors, they believed that the present basis of holding the destination contractor liable is unfair. A group of DPM contractors suggested to us that liability could be changed to make the matter fairer. For example, they suggested the following:

When the Destination Contractor can show and records damage to the exterior shipping container at the time of receipt at destination, which could have caused the damages being claimed, the Destination Contractor will be relieved of claim liability.

In these types of situations, the burden of liability would be placed more clearly on the last freight carrier, many of whom are already offering DOD much higher liability than the destination DPM contractors. This group of DPM contractors also suggested the following:

When the Destination Contractor can show specific violations of the PWS [performance work statement] by the Origin Contractor relating to the manner of shipment preparation (packing, wrapping, loading containers, stuffing, bracing, etc.), then the liability shall shift to the Origin Contractor.

In these types of situations, the burden of liability would be placed more clearly on the origin DPM contractor, many of whom, where negligence was established, could be held responsible for full value of the loss. Lastly, this group suggested the following:

In the absence of evidence or supporting documentation which places liability on a carrier or another contractor, to a shipment moving jointly by a contractor and the Government, liability for damage or loss which is recorded upon delivery out of containers which bear no outward indication of damage while in the custody of carriers, shall be shared 15/50/10/25 by the Origin Contractor, the Government, the Destination Contractor and the underlying transportation mode(s) respectfully [sic].

Here, the contractors agreed that where liability is not discernable, DOD should accept 50 percent for acting as the carrier/forwarder, and all parties should divide the remaining 50 percent based on rules established and applied uniformly to all contractors and freight carriers involved. They further argued that the claims offices' acceptance of evidence or supporting documentation that places liability on another contractor or

freight carrier should be emphasized. This change would allow the destination contractor to provide evidence or documentation and not be required to provide a direct or proximate cause when it is not involved in the origin packing or transportation services.

Claims Guidance Did Not Adequately Explain DPM Claims Recovery

The claims guidance (1) did not fully explain the options available to the claims officials to recover from someone other than the destination contractor, (2) did not accurately explain what the liability was for each contractor and freight carrier handling the shipments, and (3) did not show how to make a case for recovering from someone other than the destination contractor. Therefore, the claims officials had little guidance beyond what was stipulated in the destination contractor's contract.

Guidance on procedures for investigating, processing, and settling claims in favor of the United States was explained in service regulations, pamphlets, instructions, and supplementary materials issued by staff in the service Judge Advocate General offices. As we noted earlier, the contract language provided that in the absence of evidence or supporting documentation that places liability on a carrier or another contractor, the destination contractor shall be presumed to be liable for the loss or damage.

The August 13, 1991, letter expanded on this even further with the following:

> As a rule, the destination DPM contractor is presumed to be liable for all loss and damage to the shipment unless that contractor provides clear and convincing evidence showing that some other contractor caused the loss or damage.

Although Army Pamphlet 27-162 seemed to indicate that someone other than the destination contractor could be potentially held liable, this was not clearly explained. It merely provided the following:

> Since 1 January 1981, the destination contractor has been held liable for loss and damage unless it could prove it was not at fault—that is, took exceptions prior to receipt of goods. The motor freight carrier is liable for any damage or loss noted against it during its portion of the move. If the motor freight carrier noted specific damage when it received the shipment from the origin contractor, liability is charged against the origin contractor at $.60 per pound times the weight of the article or carton.

Nowhere was there a full explanation of the options available to the claims officials to recover from someone other than the destination contractor. Also, the guidance that was included did not accurately explain what the liability was for each contractor and freight carrier handling the shipments. Moreover, the guidance did not show how to make a case for recovery from someone other than the destination contractor.

The claims guidance did not accurately explain what the liability was for each contractor and freight carrier handling the shipments. For example, freight carrier liability was usually shown as being $0.10 per pound, per article. Army Regulation 27-20 and Pamphlet 27-162, the Navy Judge Advocate General Instruction 5890.1, and Air Force Regulation 112-1 showed that domestic freight carriers were liable for only $0.10 per pound, per article. In fact, according to most freight carriers' schedules of rates, freight carriers are generally liable for much more than $0.10 per pound, per article, typically $2.50 per pound times the gross weight of the shipment. The majority of carrier freight tenders indicated that the liability for DPM household goods was $2.50 per pound, not the $0.10 per pound, per article rate that the service claims guidance indicated was generally applicable.

Also, there was confusion among destination contractors about what was acceptable documentary evidence to make a case to the claims offices absolving the destination contractors of liability. Although the August 13, 1991, letter to the claims offices and DPM contractors from the Chief of Claims and Tort Litigation staff, Office of the Air Force Judge Advocate General, provided some advice, many DPM contractors were still not clear as to the type of evidence needed to overcome the presumption of liability. Moreover, there was concern voiced by the destination contractors as to who in the government was responsible for inspecting shipments when there was something to suggest that they were damaged en route. They were particularly concerned that transportation officials were not inspecting shipments prior to final delivery as the contractors believed the government was supposed to. As pointed out earlier, DPM is a type of service in which many DOD officials are involved. At each point in a DPM move, a transportation official has to prepare the procurement documentation for that portion of the move; ensure that the service was provided as called for in the contract, tender, or tariff; take whatever action was necessary if the service was not provided as called for; and maintain an audit trail of what was done or had transpired, particularly as to the condition of the property when it was turned over from one party to

the next. Yet, this was not always done, and this contributed to the difficulty in determining where losses or damage may have occurred.

Transportation Documentation Often Inaccurate

Transportation documentation that the claims officials could have relied on to determine the cost-effectiveness of pursuing claims against freight carriers had often been prepared inaccurately by the transportation officials. Consequently, the information that was available was misleading.

Guidance for the preparation of bills of lading is shown in the "Personal Property Traffic Management Regulation" (DOD Regulation 4500.34-R). Although this publication describes how the bills of lading were to be prepared and shows how carrier liability is to be shown on the bill of lading, often transportation officers who issue bills of lading did not include a liability statement on their DPM shipment bills. We reviewed sample bills of lading from 11 different offices that issued bills of lading. Most had prepared bills where a statement of liability was not included on the bills of lading or it was typed on the bills inaccurately. Consequently, even if the claims offices had reviewed the bills to determine the freight carrier's liability, they would have either not been informed or been misinformed about the carrier's actual liability. They would have not been able to determine the cost-effectiveness of filing claims against freight carriers where the evidence may have suggested the carrier was responsible for the loss or damage.

Agency Comments and Our Evaluation

In its response, DOD took the position that applying the presumption that the destination contractor is responsible for loss and damage is fair and reasonable. DOD added that the destination contractors were in a much better position than the government to know the cause of the loss and damage, or alternatively to provide documentation that established liability on a prior carrier or contractor. Also, DOD said that the destination contractors have the burden of providing exculpatory evidence, which raises sufficient doubt about the validity of the liability presumption.

DOD has stated several times in its response that on the vast majority of DPM shipments, it is impossible to tell who caused the damage or loss. Therefore, we question whether the common law presumption and contract liability clause is entirely fair and reasonable. We also doubt whether acceptance of this approach will do anything to correct or minimize the incidence of claims on future DPM shipments.

DOD only partially concurred with our findings concerning the impact of and reasons for holding the destination contractor liable for most loss and damage. DOD argued that we had ignored the legal mandate to first seek recovery for loss and damage claims from the "last handler"—in these types of shipments, the destination contractor—and the practical impossibility of establishing liability unless that contractor has suitably documented the shipment. It said that its claims officials may only proceed against other parties where sufficient evidence has been provided by the destination contractor to establish the liability of another party. Since the contractor is in a better position than the government, argued DOD, it is entirely appropriate for DOD to first seek recovery from the destination contractor. Moreover, DOD concluded, the destination contractors have failed to protect their interests by taking appropriate exception upon receipt of shipments from previous handlers, by sufficiently documenting packing deficiencies, and by unpacking shipments upon delivery. The contractors, according to DOD, have agreed to assume responsibility for losses and damage.

In our draft report, we made several proposals to improve the claims recovery process for DPM shipments. We recommended that all claims offices be made aware of the provisions of all the various contracts used in the movement of DPM shipments before deciding to file DPM recovery claims against any contractor(s) and to revise and clarify claims guidance to ensure that it (1) fully and accurately explains the options available to the claims officials to recover from someone other than the destination contractor, (2) specifies what the liability is for each contractor and freight carrier handling DPM shipments, and (3) shows how to make a case for recovery from someone other than the destination contractor. We also recommended that the transportation regulations and instructions clearly show how to prepare transportation documentation to ensure that it accurately reflects freight carrier liability for DPM shipments. DOD agreed to this at least in part and said it planned to provide additional guidance to its claims and transportation personnel.

In our opinion, however, compliance with the law as a remedy to the claims recovery problem may not be enough. The destination contractors we spoke with pointed out that their acceptance of the liability is not going to cause anyone to improve their service or allow DOD to increase its recoveries. These contractors have no control over who packs the shipments or who transports them and, therefore, cannot improve the quality of the service provided by those parties. Decisions to procure those services rested entirely with the government, and destination contractors'

acceptance of claims liability will not alter those decisions unless the information about shoddy packing and rough in-transit handling gets back to those government officials who issued contracts or bills of lading to those particular origin contractors and freight carriers. Whether the destination DPM contractor accepts liability for every lost or damaged DPM shipment or fights every claim and wins is not the essential issue with claims recovery. The more important issue is whether DOD is providing a financial incentive to make contractors and carriers avoid causing the loss or damage—that is, pay precisely what it cost DOD for the loss or damage. The current procedures are causing the claims officials to look almost exclusively to the destination contractors, when many cases suggest that these contractors did not cause the problems.

Accordingly, in our draft report, we made a recommendation intended to ensure feedback to origin transportation officials on the problems and claims costs being encountered on DPM shipments. We said that consideration should be given to revising the standard clause in DPM contracts to hold both the origin and destination contractors liable and have them share the cost of damages on a predetermined basis. The basis, we said, should be sufficient to provide incentives for improving the origin packing and containerization, one of the major factors contributing to losses of and damage to personal property shipments.

DOD took exception to this recommendation and argued that assessing claims cost on a shared basis would not encourage contractors to improve their service, nor would it be cost-effective to process claims on such a basis. In our opinion, however, unless everyone in the DPM process is aware that the government is paying a significant amount for DPM loss and damage, improvements will not be realized, and the level of claims will continue as usual. However, if DOD can overcome this information gap—either by aggressively pursuing claims caused by other than destination contractors or by ensuring detailed feedback on defects in other DPM contractors service—we would agree that shared liability would not need to be pursued.

Comments From the Department of Defense

ASSISTANT SECRETARY OF DEFENSE

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PERSONNEL AND READINESS

SEP 28 1993

Mr. Mark E. Gebicke
Director, Military Operations and
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U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gebicke:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled--"HOUSEHOLD GOODS: DoD Can Improve Claims Recoveries on Direct Procurement Method Shipments," dated August 17, 1993 (GAO Code 393494), OSD Case 9476. The DoD partially concurs with the draft report.

The DoD agrees with some of the GAO suggestions to improve Direct Procurement Method recoveries and ways to improve claims guidance. The GAO, however, failed to identify the legal basis for recovery against Direct Procurement Method destination contractors. Initial recovery against the destination contractor is required by contractual provisions, common law, and common sense. As the last handlers of the shipment, destination contractors are in a far better position than any other party including the Government, line haul carriers, and origin contractors, to provide evidence concerning loss or damage to a shipment by properly noting the condition of the items when they are received or by specifically identifying packing deficiencies. In the absence of such evidence, the Government has little recourse other than to follow the legal presumption that the destination contractor caused the damage, because the Government usually will not have any evidence that another contractor caused the loss or damage. Thus, in the vast majority of all claims, unless Direct Procurement Method contractors properly document shipments, it is impossible to tell exactly where damage occurred.

The draft report also states that destination contractors have been forced to raise rates to cover claims costs, but does not point out that a great many, if not most, destination contractors are also origin contractors. By failing to document

shipments to absolve themselves of liability, the destination contractors have voluntarily accepted claims as a cost of doing business. Destination contractors can and do contest Government recovery efforts against them through appeal to the contracting officer or the Armed Services Board of Contracts Appeals.

The DoD does not agree with the GAO recommendation to revise contract clauses to provide for shared liability between Direct Procurement Method contractors. In essence, the Government already shares liability with contractors through limited liability of $.60 per pound per article. As the GAO notes, that is far less than the Government pays for claims. Assessing claims costs throughout the Direct Procurement Method transit chain on a arbitrary basis would fail to encourage culpable parties to improve service, because the costs would not be tied to the party who caused the damage. Additionally, forcing the Government to seek recovery from numerous parties for relatively small amounts of money would not be cost effective and would exceed the resources available for such an effort.

The detailed DoD comments on the report findings and recommendations are attached. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

Edwin Dorn

Attachment
As stated

**GAO DRAFT REPORT - DATED AUGUST 17, 1993
(GAO CODE 393494) OSD CASE 9476**

"HOUSEHOLD GOODS: DOD CAN IMPROVE CLAIMS RECOVERIES ON DIRECT PROCUREMENT METHOD SHIPMENTS"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

o **FINDING A**: **Direct Procurement Method**. The GAO explained that, when the DoD ships household goods and baggage for military and civilian personnel, usually the Through Government Bill of Lading method is used--in which a single forwarder or moving van company arranges for or provides all the services for the entire move. The GAO further explained that the forwarder or moving van company is responsible for packing, crating, local drayage, line-haul transportation, delivery, uncrating, unpacking, and any other service required and accepts responsibility for any loss or damage during the entire move.

The GAO observed, however, that for both international and domestic moves, the DoD uses the Direct Procurement Method as a necessary or cost-effective alternative to the Through Government Bill of Lading method. The GAO further observed that, under the Direct Procurement Method, the DoD contracts with local packing and containerization contractors and line-haul freight carriers to handle each segment of a move--one contractor prepares the goods and packs them for shipment, another delivers the goods and unpacks them, and one or more freight carriers provide the line-haul transportation between contractors. The GAO observed that the DoD manages the Direct Procurement Method shipments through-out--there are no business or contractual relationships between the origin and destination contractor or between the contractors and freight carriers. The GAO explained that the extent of each contractor's liability is defined in individual contracts with the Government. The GAO pointed out that, under some contracts, the DoD can recover full value when negligence is proven. The GAO indicated that, if a Direct Procurement Method shipment or a portion of it is lost or damaged, the property owner can file a claim against the Government and be compensated according to DoD rules and regulations. The GAO explained that claims officials then try

to recover the payment from one of the contractors or freight carriers that may have been responsible for the problem. (pp. 1-2/GAO Draft Report)

DOD RESPONSE: **Concur**

o **FINDING B**: **Holding Destination Contractor Liable Restricts Recovery Effort**. The GAO reported that in a typical Direct Procurement Method claims case, Service members or civilian employees file a claim with the claims office showing that they received their property from the destination contractor damaged or had items missing. The GAO noted that the claimant must show the dollar value of the loss and that he or she notified the contractor in a timely manner. The GAO noted that the claims official then (1) reviews the claim, (2) decides how much to pay, and (3) pays, as appropriate. The GAO further noted that, at that point, the claims office or the Service central claims processing center tries to recover the settlement amount from the responsible party. The GAO pointed out that the claims office decides against whom to file the claim.

The GAO concluded guidance provided by DoD legal advisers indicated that the destination contractor cannot shift liability to another contractor simply by saying that the damage did not occur while the property was in its possession. The GAO further concluded that, to avoid liability, the destination contractor has to prove that the damage was a direct result of actions by either the origin contractor or one of the freight carriers. The GAO further concluded that, usually, the local claims office rejected the contractor's arguments because evidence was required to show that (1) the loss or damage did not occur while the goods were in the contractor's possession, (2) the loss or damage did, in fact, occur elsewhere, and (3) what had occurred elsewhere was the sole cause of the problem. The GAO also concluded that, if all those conditions were not met, the claims office could determine that the destination contractor had caused the problem and could be held liable. The GAO pointed out that, consequently, the destination contractor either had to pay the claim or have it withheld from other invoices awaiting payment.

The GAO found that amounts the claims offices recovered from destination contractors was often minimal compared to what could have been recovered. The GAO noted that both the destination and origin contractors were liable for loss and amage at a rate of $.60 per pound, per article--as established in the individual contracts with the Government. The GAO further noted that, if

negligence was established, the origin contractor could be held liable for the full amount of the loss. The GAO explained that freight carriers had a range of liability rates--from $.10 per pound, per article, to full value--but most often the contractors were liable at a rate of $2.50 per pound, per article.

The GAO concluded that, because the DoD held only the destination contractors liable for Direct Procurement Method claims, the contractors had to increase rates to offset the claims costs. The GAO explained that several Direct Procurement Method contractors stated that it was not worth arguing any claim because the claims offices almost never accepted evidence suggesting that the contractors were not liable. The GAO noted that, according to the contractors, there was no choice but to accept claims as a cost of doing business and increase the rates for future contracts. The GAO referenced an August 13, 1991, letter by the Air Force Judge Advocate General to the claims offices and Direct Procurement Method contractors confirming that the DoD expected the contractors to adjust the rates in that manner. The GAO further found that there were no DoD figures showing how much more the DoD may have been paying for destination service as a result of destination contractors being routinely held liable for almost all loss and damage claims. The GAO concluded that, when the claims offices held the destination contractors liable for loss or damage, there was little likelihood the underlying reasons why losses or damage occurred on Direct Procurement Method shipments would be identified and that preventive actions would be taken. (pp. 7-12/GAO Draft Report)

Now on pp. 6-10.

DOD RESPONSE: Partially concur. The GAO did not identify the correct legal liability standard applicable to Direct Procurement Method shipments. In addition, the GAO incorrectly concluded that military claims offices have complete freedom to decide against whom to seek recovery for loss or damage. Thus, the GAO attributed recovery efforts against destination contractors to a lack of knowledge on the part of claims offices, rather than as fulfilling a legal requirement based on common sense.

In the vast majority of all Direct Procurement Method shipments, it is virtually impossible to tell precisely where and by whom damage occurred. Seldom is there a definitive explanation of damage. Rather, proof of where and by whom the damage was likely caused comes from applying exculpatory evidence, that is, by showing that others who came later in the transit chain received the items already damaged or did not receive them at all. The shipper's inability to ascertain which contractor caused the damage is the reason for the well established common law "last

handler" rule. The rule also recognizes the practical difficulties origin contractors would face in rebutting their liability since they cannot see the extent or nature of the damage at the final destination.

The GAO correctly noted that Direct Procurement Method shipment liability is specified in Defense Federal Acquisition Regulation clause 252.247-7016. That regulation, however, also codifies existing law which specifies the "last handler" must explain why it should not be held liable for loss or damage. The impact of the clause and the common law is that once the Government has shown tender in good condition and loss on arrival at the destination in damaged condition, a rebuttable presumption is created against the destination contractor to show that it was not responsible for the loss or damage. The contractor can only overcome that presumption by providing evidence establishing the specific cause of damage, not merely speculation or evidence giving rise to a presumption as to how the damage may have occurred.

Applying that presumption is entirely fair and reasonable, because the destination contractor, as bailee of the property, is in a much better position than the Government to know the cause of the loss or damage, or, alternatively, to provide documentation that establishes liability on some other transit party. The destination contractor has the burden of coming forward with exculpatory or specific evidence which raises sufficient doubt about the validity of the liability presumption.

The GAO implication that DoD claims officials have an unfettered right to recover from either origin or destination contractors, or from any intermediate transit party, ignores the legal mandate to first seek recovery from the "last handler" and the practical impossibility of establishing liability unless the contractor has suitably documented the shipment. In the overwhelming majority of cases, Military claims offices may only proceed against other parties where sufficient evidence has been provided by the destination contractor to establish the liability of another party. Since the destination contractor is in a better position than the Government to provide this evidence, it is entirely appropriate for the Government to first seek recovery from the destination contractor. Therefore, while the GAO observed that it may "appear" that some other party in the transit chain may have caused the damage and that the other party has greater liability limits, those facts are not important unless and until evidence is available to prove that this other party caused the damage or loss by virtue of the fact that the destination contractor did not.

The DoD does not always agree with the GAO implication that removing the presumption of the destination contractor liability will have the effect of lowering transportation rates. If liability is shifted to other parties in the Direct Procurement Method transportation chain, those contractors would then incur additional liability costs. Just as the destination contractors have done, the line haul and origin contractors would have to raise their rates to compensate for the increased expense. Since their increased rates would most likely offset the reduction in destination contractor rates, the Government would realize no savings in transportation costs.

In addition, the DoD does not agree with the GAO assertion that destination contractors have no alternative other than to raise rates to cover claims costs and that destination contractors have little choice but to accept claims as a cost of doing business. Destination contractors can avoid liability by showing they did not cause the specific damage because it was already present when they received the property or was caused exclusively by packing violations. The destination contractors can also decrease claims costs by improving the quality of their service. Their failure to protect their interests, by taking appropriate exceptions upon receipt of shipments or sufficiently documenting packing deficiencies, is a business decision based on a cost/benefit analysis. Thus, when the contractors fail to document receipt condition or unpack to determine whether damage is present, they agree to assume responsibility for whatever damage might be present. Since destination contractors have the means to establish their true liability, it is unfair for the GAO to assert that destination contractors had no choice but to increase rates. Further, it is wrong for the GAO to lend credence to contractor arguments that they have no choice but to accept claims office decisions concerning their liability. Under the Contract Disputes Act, destination contractors are free to contest the liability with the contracting officer and appeal adverse determinations to the Armed Services Board of Contract Appeals under a simple, inexpensive, and expedited procedure.

Further, the DoD disagrees with the GAO interpretation of an August 13, 1991 Air Force letter. According to the GAO, the letter told destination contractors they had no choice but to accept claims as a cost of doing business. In fact, the Chief of the Air Force claims program wrote the letter in response to a request from the carrier industry for guidance on Direct Procurement Method shipment liability. Through numerous examples, the letter explained how destination contractors could overcome their presumption of liability. At the close of the

letter, the Chief of the Air Force claims program stated that if destination contractors could not show another contractor was liable, then the claims liability would be another cost of doing business.

Finally, although the GAO is correct in stating that present Direct Procurement Method recovery procedures against destination contractors do little to improve the quality of service at origin or during transit, it should also be recognized that it is the failure of the destination contractor to provide suitable evidence of those deficiencies (despite having a financial incentive to do so) that prevents the kind of recovery against other Direct Procurement Method contractors that might lead to quality improvements. Improving quality of service by these parties is practically impossible unless the destination contractor properly documents damage or loss at receipt or delivery.

o **FINDING C: Reasons For Not Charging The Responsible Contractors**. The GAO pointed out that, because claims officials had access only to the destination Direct Procurement Method contractor's contract--the extent of the liability of other parties was not known. The GAO further pointed out that, although a separate contract is let at each point in the Direct Procurement Method move, none of the information was transmitted to the claims offices for purposes of claims recovery. Moreover, the GAO concluded that there was little evidence that the claims officials had ever asked for the information, particularly copies of the individual contracts for each participant in the move. The GAO explained that, in discussions with contractors (many of whom are both destination and origin Direct Procurement Method contractors)--the contractors contended that the present basis of holding the destination contractor liable is unfair.

The GAO found that the destination contractors could seldom provide the claims offices acceptable evidence or documentation that conclusively placed the liability for the loss and damage on one of the other parties handling the Direct Procurement Method shipment.

The GAO concluded that the claims regulations (1) did not fully explain the options available to the claims officials to recover from someone other than the destination contractor, (2) did not accurately explain what the liability was for each contractor and freight carrier handling the shipments, and (3) did not show how to make a case forrecovering from someone other than the

Now on pp. 10-15.

destination contractor. Therefore, the GAO further concluded that the claims officials had little guidance beyond what was stipulated in the destination contractor's contract.

The GAO also found that transportation documentation the claims officials could have relied on to determine the cost-effectiveness of pursuing claims against freight carriers had often been prepared inaccurately by the transportation officials. The GAO concluded that, consequently, the information that was available was misleading. (pp. 12-18/GAO Draft Report)

DOD RESPONSE: **Partially concur.** The DoD disagrees with the GAO reliance upon having knowledge of contractual liability clauses before proceeding with Direct Procurement Method recovery. First, since origin and destination contractors follow the same regulation clause, claims offices automatically know the extent of origin contractor liability. Secondly, although it is certainly advisable for claims offices to be able to obtain liability clauses pertaining to motor freight carriers, this is not overly important unless the destination contractor provides receipt exceptions showing the possibility of damage by the motor freight carrier or others in the transit chain.

As discussed in the DoD response to Finding B, it is vital to recognize that destination carriers are usually unable to provide suitable evidence to place liability on other parties (and thus absolve themselves of liability) because they choose not to create the documentation necessary to do so. The destination contractors apparently believe that it is more cost effective to pay claims than to avoid them by unpacking or documenting delivery condition. Thus, it is not so much the failure of the claims offices to understand how to seek recovery from others in the transit chain that controls Direct Procurement Method recoveries. Rather, it is the failure of destination contractors to properly document shipments. That situation occurs at least partly because the low limit on liability ($.60 per pound per article) that does not make it cost effective for them to do so.

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RECOMMENDATIONS

o **RECOMMENDATION 1**: The GAO recommended that the Secretary of Defense direct the Service Secretaries to require that all claims offices be aware of the provisions of all the various

contracts used in the movement of Direct Procurement Method shipments before deciding to file Direct Procurement Method recovery claims against any contractor(s). (p. 4/GAO Draft Report)

DOD RESPONSE: **Partially concur.** The DoD agrees that claims offices should be aware of the liability provisions in the various contracts pertaining to Direct Procurement Method shipments. Within the next 120 days, the military claims services will publish additional guidance concerning how to obtain that information. The DoD does not agree, however, that information must be obtained before proceeding with Direct Procurement Method recovery against the destination contractor. To do so would be inconsistent with legal requirements, impractical, and wasteful. Once the destination contractor has provided some evidence that others in the transit chain may be liable for loss or damage, it is then appropriate for claims offices to examine those clauses. To require this information before recovery in each claim is unnecessary.

o **RECOMMENDATION 2**: The GAO recommended that the Secretary of Defense direct the Service Secretaries to revise and clarify the claims regulations to ensure that the regulations contain guidance fully and accurately explaining the options available to the claims officials to recover from someone other than the destination contractor, specify what the liability is for each contractor and freight carrier handling Direct Procurement Method shipments, and show how to make a case for recovery from someone other than the destination contractor. (p. 4/GAO Draft Report)

DOD RESPONSE: **Concur.** The DoD agrees that the Military claims services should publish guidance which more fully and accurately explains options available to recover on Direct Procurement Method shipments. That guidance will be published within 120 days. However, each Military Service should be free to determine whether the guidance should be published in its regulations, pamphlets, or separately. While the guidance may ultimately be included in Service regulations, given the time necessary to revise those regulations, expediting dissemination to field activities through electronic mail, in legal publications, or in separate mailings is preferable and will accomplish the objective of the recommendation in a more timely manner.

Now. on p. 4.

o **RECOMMENDATION 3**: The GAO recommended that the Secretary of Defense direct the Commander, Military Traffic Management Command, to clarify the transportation regulations and instructions to show how to prepare transportation documentation that accurately lists freight carrier liability for Direct Procurement Method shipments. (pp. 4-5/GAO Draft Report)

DOD RESPONSE: **Concur**. The Personal Property Traffic Management Regulation currently requires the release valuation amount to be shown on the Government Bill of Lading. By October 30, 1993, the Military Traffic Management Command will inform shipping offices of the importance of complying with that requirement.

Now on p. 4.

o **RECOMMENDATION 4**: The GAO recommended that the Secretary of Defense consider revising the standard clause in Direct Procurement Method contracts to hold both the origin and destination contractors liable and have them share the cost of damages on a predetermined basis. (The GAO pointed out that the basis should be sufficient to provide incentive for improving the origin packing and containerization.) (p. 5/GAO Draft Report)

DOD RESPONSE: **Nonconcur**. The standard liability clause, as a codification of the common law, should not be changed. Although the GAO is correct in noting that during the period 1977-1980, the clause provided for shared liability between the origin and destination contractors, the provision was abandoned because it did not work and proved unsatisfactory to all concerned. The DoD also notes that a Direct Procurement Method committee of industry and military officials concluded, in 1991, that the clause provides suitable protection for destination contractors. Further, the GAO statement in the draft report that "the key point was that a [destination] contractor could not escape responsibility by simply showing that the problem did not occur while the property was in its possession," is not correct. If a destination contractor proves by competent evidence that the loss or damage did not occur while the property was in its possession (such as by showing that the loss or damage had already occurred before it took possession of the property), it will be relieved of liability, because it has met the legal standard for showing that another contractor caused the damage. Under existing law, it is not necessary for the destination contractor to show which other contractor caused the damage, only to prove that the destination contractor did not do so by specifically identifying damage or loss. As stated earlier, that is inherently reasonable since the destination contractor exclusively controls the means to provide that proof.)

An arbitrary division of liability between the origin and destination contractors on a predetermined basis would not improve the quality of service by either the origin contractor or intermediate transit parties. Such a division would severely restrict the incentive of the destination contractor to properly note damages caused by another party. In essence, the GAO indicates that destination contractors are asking to be absolved of liability by taking non-specific exceptions or merely suggesting possibilities as to how damage occurred. The DoD sees no reason to reward contractors for failing to properly document shipments. The choice of whether to do so remains with the destination contractor. The contractors should not be rewarded for what neither the Defense Acquisition Regulation Supplement liability clause, nor the common law will allow. Many, if not most, destination contractors are also origin contractors. Thus, any potential savings obtained by destination contractors at the expense of origin contracts would likely be illusory.

Scope and Methodology

We initially focused on the DPM shipment contracting and contract administering procedures by using DPM contract number F41691-90-D0006, awarded on February 23, 1990, by Randolph Air Force Base, Texas. We then looked at procedures at other locations across the country.

We discussed matters related to the Randolph contract with representatives of the DPM contractor servicing the San Antonio, Texas, area; officials of the contracting office at Randolph Air Force Base; the responsible transportation office for shipments originating at or destined for the Joint Personal Property Shipping Office-San Antonio; and the local installation claims offices at Randolph, Kelly, Lackland, and Brooks Air Force Bases and Fort Sam Houston, Texas.

We then reviewed information on DPM contracts and claims handling by DOD at the principal Texas DPM contract sites and in the Washington, D.C., area. For example, we obtained comments and reviewed the rates being charged at Bergstrom, Carswell, Dyess, Ellington, Goodfellow, Laughlin, Reese, and Sheppard Air Force Bases, Texas; Forts Bliss and Hood, Texas; Red River Army Depot, Texas; Corpus Christi, Dallas, and Kingsville Naval Air Stations, Texas; and the Joint Personal Property Shipping Office-Washington, Cameron Station (Alexandria), Virginia. In addition, we obtained examples of DPM shipments and claims from some of these locations. We also discussed claims handling with the officials at Fort Bragg and Pope Air Force Base, North Carolina, and transportation matters with bill of lading issuing offices at Military Traffic Management Command ocean terminals and outports at Bayonne, New Jersey; New Orleans, Louisiana; and Oakland, California.

We discussed DOD's handling of DPM claims with in-bound DPM contractor officials in the northern Virginia, Fort Hood, Texas, and Fort Bragg, North Carolina, areas. We also discussed DPM matters with, or reviewed DPM information provided by, officials of the principal household goods carrier and forwarder associations, including the American Movers Conference and the Household Goods Forwarders' Association of America, Inc., which have members who are DPM contractors.

We further discussed matters related to DPM contracts and claims with officials of the Office of the Under Secretary of Defense for Logistics (Transportation Policy); the Military Traffic Management Command, Falls Church, Virginia; the U.S. Army Claims Service, Fort George G. Meade, Maryland; the Office of the Judge Advocate General, U.S. Air Force; and claims representatives from the U.S. Navy and the Marine Corps. We

reviewed the pertinent transportation and claims regulations and researched the background to the liability clauses contained in the DPM contracts.

We conducted our review from April 1992 through August 1993 in accordance with generally accepted government auditing standards.

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